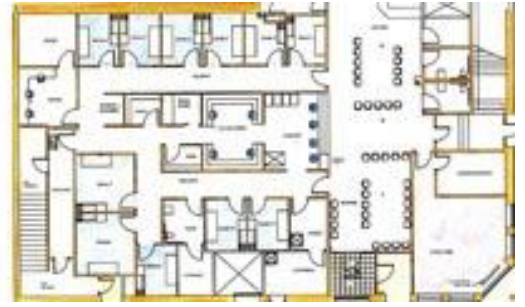


Would you like to have a medical practice adjoining your pharmacy?

You probably all know a pharmacy that enjoys the significant benefits that flow from the creation or expansion of an adjoining medical practice. Despite appearances it is unlikely these 'success stories' have happened by accident.

To create value in this way is not difficult (and is preferable to buying it from someone else!) but it does require time, effort, capital and risk taking. Equally, to ignore an opportunity also carries risk as medical consolidators and pharmacy competitors alike are seeking to capitalize on the new location rule exemptions regarding medical centres.



So, is this an option for your pharmacy?

The operating structures of medical centres can take many forms but are always created because they make commercial sense from a number of different perspectives:

1. consumers prefer convenience and co-located medical conveniences generate increased traffic.
2. each of the separate businesses can share costs while achieving economies of scale. For example pathology and x-ray services become rent subsidizers for the 'core' medical practice in a centre.
3. solo GP practitioners need to consolidate to achieve revenue growth, reduce administration and enjoy some semblance of a work/life balance. Additionally, certain government subsidies for medical practices are out of reach for those operating as individual practitioners.
4. on average Pharmacy profits are stagnating/reducing and pharmacists are increasingly looking for ways to grow their businesses.
5. Savvy GP consolidators (including public companies) are developing medical centre precincts to generate profit for shareholders.

Knowing how to start is often the most difficult step although once completed the rewards can be significant for all parties, including the customer! The following is a brief summary of the issues requiring consideration should you want to embark on this particular journey of wealth creation.

Where to Start

In a broad sense the two main options are:

1. build a medical practice without knowing who will actually occupy the premises. (i.e. build it and they will come) – not for the faint hearted or those short of capital or
2. work with an existing medical practice/GP to relocate/refit and develop a mutually beneficial arrangement which is based on the pharmacy providing some sort of financial assistance.

In both cases, negotiations need to carefully balance commercial reality with GP's requests / expectations / sensitivities in order to create a win/win position.

What to do

Once you have identified an opportunity the following issues need due consideration:

1. Is it a greenfield GP practice? If so have you consulted with local doctors regarding their interest in relocating? If they are interested then do they want to own it? Before negotiating define your motivation for undertaking the project. If it is to increase the number of prescribing GP's supporting the pharmacy then do not become attached to the idea of owning a medical practice as the rewards are insufficient unless the practice is of a significant size (probably more than 5 full time GP's).

Further, most GP's do not want to work for a pharmacist. In many cases you will be required to pay the GP up to 70% of the income they generate to have them relocate their patients and work in your practice. Generally this means the practice will need more than 4 full-time GP's just to break even. For a greenfield site you may in fact have to pay the GP around \$100 per hour until the patient flow generates more than that.

2. GP's will generally not want to take the practice over until the ownership risk has been minimized (ie it is covering costs). As such there are trade-offs that need to occur if you and the GP are to reach a mutually beneficial arrangement. It is far better that these discussions are held before the GP starts rather than at a later date. It is also useful to have the input of the proposed GP as to the practice's fit-out requirements.
3. While the concept of control is appealing, having the medical practice on a sub-lease attached to your own head lease is generally not advisable. GP's will nearly always prefer to have the pharmacist as a landlord rather than someone independent due to the greater leverage in negotiation.
4. When it comes to offering ongoing subsidies to a medical practice you need to understand what a GP is worth to your business. This answer will differ from pharmacy to pharmacy and depends on issues such as:
 - How many scripts is that doctor currently generating for the pharmacy?
 - What will be the prescribing habits of a new GP?
 - What type of patients will be attracted by the surgery?
Old/young/mums/pensioners/etc?
 - What is the pharmacy/medical practice's supporting demographic?
 - What additional costs does the pharmacy itself need to recover from both the development of and the servicing of the increased business?

In very general terms, expectations can be derived by estimating the following financial drivers:

- average number of hours worked by a doctor per week
- number of weeks worked per year
- average number of patients seen per hour
- average number of scripts written per patient
- the conversion rate – scripts dispensed/prescribed
- average dispensed script value
- average dispensary gross profit % including discounts & rebates

Last but not least surround yourself with experienced advisors who can assist with the planning, development and negotiation!